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GFOA and Waste Expo Special Issue

A Publication of Communication Channels, Inc.

MAY 1988

AMERICAN CITY & COUNTY

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Garbage Barge Earth

- Siting a Landfill
- Hazardous-Waste Collection
- Involving the Public In Resource Recovery

Special Supplement: Public Finance '88

Magazine Advisers Provide Insight

AMERICAN CITY & COUNTY®

May 1988 Vol. 103, No. 5

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Cover photography by Jerry Hoy/Double Vision, Atlanta

JERRY HOY/DOUBLE VISION

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Time To Take Charge

Our apologies in advance to Nancy Rutledge, who has served ably and with dedication in her now-complete assignment as executive director of the National Council on Public Works Improvement, and to the many fine individuals who have participated in the two-year report to the president and Congress on the state of America's infrastructure. The report, "Fragile Foundations: A Report on America's Public Works," is complete and in the hands of Congress for review.

We do not say "in the hands of Congress for review *and action*," because there is faint chance there will be any federal funding forthcoming as a result of this study. That is one reason for our apologies — that so much work went into a project unlikely to make any difference in how the federal government deals with the nation's decaying infrastructure.

But our apologies also reflect our frustration with this recurring "report" syndrome/nightmare. How many studies do we need to convince us of the problem? Do we do an "America in Ruins" or "Fragile Foundations" handwringing report every five years? What's the purpose — to allow Congress to show constituents something is being done? Does anyone else see this as a smokescreen to hide the unwillingness or inability of the federal government to work toward a solution? Are we fooling ourselves every five years by ballyhooing another study but not following up with appropriate action?

"Fragile Foundations" could not be a more appropriate title for this report, since the support from Washington in terms of reversing present policy is fragile, at best. Even at the state and local level, there seems to be a reluctance to realize the federal government will not be the answer to the infrastructure crisis — at least not by itself and most assuredly not with anywhere near the financial commitment of years past. The time has come for state, county and city governments to realize they must work together to solve what is essentially their problem.

The nation has put infrastructure repair on hold for too long, simply because no one wants to be responsible. The federal government is virtually precluded because of the tremendous deficit situation. State and local officials might just as well face the fact that in the years ahead less money will be coming from Washington for such needs as streets, sewers and mass transit — regardless of the political makeup of the new administration.

We are in a federal budget crisis. Berating the causes will not bring us out of the situation; neither will a return to the pre-tax cut days. The nation faces many years of serious budget austerity, and infrastructure spending will not be a priority.

Perhaps the key recommendation of the latest study calls for "a national commitment, shared by all levels of government, the private sector and the public ..." That statement is tempered, however, by the recommendation "that the federal government must act as a full and responsible partner on a long-term basis ... the federal government should be a reliable partner in financing public works."

This is a pipe dream. Reflect instead on the following recommendations in the report:

"Users and other beneficiaries should pay a greater share of the cost of infrastructure service.

"States should develop comprehensive infrastructure finance strategies.

"Local governments should give budgetary priority to funding the maintenance of existing facilities.

"Developers should pay an equitable portion of the cost of new facilities necessary to service commercial, industrial and residential development.

"The unit of government responsible for service delivery should be the one that levies the fees or taxes to the extent possible and practical."

Such sound recommendations would not seem to justify apologies, but if past performance is any indication, this latest round of infrastructure-bashing will amount to little in the way of concrete action. If that is the eventual result of this latest study, then we should offer our apologies to those people who spent so much time and effort. The blame, however, will be directed at state and local leaders if they continue to wait for the federal government to bail them out of their infrastructure dilemma. State and local governments must take charge of the situation. To do otherwise is to invite another five-year report in 1993. □

— Ken Anderberg

Editorial Board: Better Times Ahead?

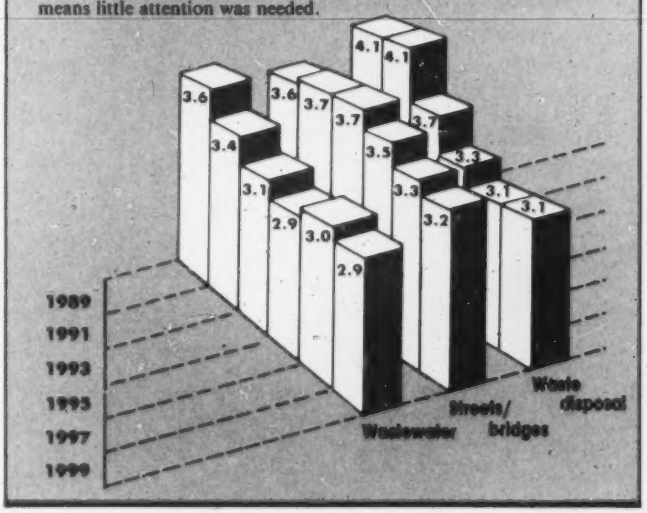
When the *American City & County* Editorial Advisory Board met in Atlanta, infrastructure and environmental problems topped the discussion agenda.

America's infrastructure and environmental problems are significant today, and will remain so until the mid-1990s, but by the end of the 20th century, such problem areas as waste disposal, street and bridge rehabilitation, and wastewater treatment generally will be in slightly better shape. That was the consensus of nine local-government leaders who gathered recently in Atlanta for the annual *American City & County* Editorial Advisory Board meeting.

Board members were asked to rate four infrastructure/environmental areas in terms of the attention needed to resolve problems in each area and when significant progress could be expected in the resolution of those problems. Each of the four areas — waste disposal, street and bridge construction and maintenance, wastewater collection and treatment, and economic development — were rated each year through the end of the century. Ratings ranged from a high of 5, indicating emergency measures need to be taken and other tasks need to be dropped until this area is under control, to a low of 1, with most challenges resolved and little need of attention. Board members included many 5s in their assessments, but no 1s.

Future Challenges

Members of the *American City & County* Editorial Advisory Board were asked to rate the seriousness of problems facing local governments through the end of this century in providing waste disposal, street and bridge repair and construction, and wastewater collection and treatment. A rating of 5 indicates an emergency situation, a mark of 3 denotes ongoing problems of significant proportion, and a 1 means little attention was needed.



Waste disposal was rated as the problem most in need of immediate attention. The board consensus was waste disposal would remain a critical concern at least through 1993, at which time corrective measures will contribute to a gradual lessening of disposal difficulties. Resource recovery, recycling and waste-stream reduction all were cited as eventual steps toward solution, but the problem is so significant that even in 1999 board members gave waste disposal a 3.1 rating — needing continual attention with ongoing problems of significant proportions.

Pam Plumb: We can get by for another five to 15 years, when all of a sudden we're going to get this huge crunch, like we've already felt in some metropolitan areas. And then the disposal space will just not be available. Then we're really going to be faced with a problem.

Buford Watson: We'll (solve the problem) in several different ways. Private enterprise will help as far as they can go. It is going to be more expensive, and when it becomes more expensive than the conversion plants, then waste-to-steam will be more practical. As the land runs out and the price gets higher, we'll see more technical solutions. It's not going to be an overwhelming problem for the next 20 years.

Chester Funnye: It's right upon us in Atlanta now. We started out in 1981 with about 14 years of landfill space left. Just a couple months ago we finally finalized our long-range solid-waste management plan. Now we're down to seven years left. If we start to-

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Editorial Advisory Board members (above and clockwise) include Pam Plumb, Daniel Kleman, John Walsh, Chester Funnye, Buford Watson and Costis Toregas.

day, it will take us a good three to four years to bring something on stream. So the period over which we're looking is really only a wink of the eye when you consider how we operate in government.

Plumb: Your timeframe is not unlike what we've been through. Although we're about to flip the switch on our waste-to-energy plant this summer, I see ongoing problems with the technology to resolve the problem. When we began our process many years ago, our state Department of Environmental Protection was pushing local communities to burn trash, and they were giving us planning money to figure out how to do it. So we did.

Now that we're about to flip the switch, they have grave reservations about whether or not it's the proper technology. They are giving us the world's hardest time on where we're going to put the ash, for example — how we're going to treat that ash, what we're going to do with the ash out of the baghouse, what we're going to do with what comes out of the stack, and whether or not we're poisoning the environment worse than we were when we were just chucking it in the ground.

Costis Toregas: Jeremy O'Brien from my technical staff, who is a professional engineer and reads the magazine and uses it very effectively, says, "Congressional action could effectively kill the waste-to-energy industry by passing legislation requiring periodic retrofits to meet changing environmental standards."

Plumb: What's going to happen to the $70-million, 25-to-30-year investment that you made when five years down the road the state says you can't operate it?

The potential is stunning. Whether it's going to happen or not is Russian roulette. The potential is absolutely staggering if you take a $70-million investment that's supposed to last 30 years and five years down the road someone tells you you're done. You've got to start over again and you're talking megabucks. Or if they come in and say, five years down the road, the state of the art now requires $15 million more for pollution control, or if they say all of your clunker ash has got to be in a landfill that's qualified to take toxic wastes. Any one of those just has staggering financial implications.

Ken Anderberg: Are you incorporating recycling programs in your waste-management plan?

Plumb: We are. I say that with some hesitation because I don't think they're significant programs. Recycling is a whole lot easier to do in a single-family suburban setting than it is in an urban setting where you have apartment dwellers and a transient population. We are talking about something like 5-percent recovery in our area. And the question is whether there's a market for what you recycle. What are you going to do with it, bury it again?

Ron Jensen: There's another side to this because the people in the recycled-materials marketplace are opposed to municipal government moving into recycling because it's going to overwhelm the market and depress prices.

We're going into phased or programmed recycling. We have a distinct advantage that will support our recycling program that other cities don't have. We're going to a transfer-station operation to haul to a regional landfill 50 miles away. It's going to cost us about $1 million a month just for transportation. So for every ton we don't

The Participants

Participating in the *American City & County* Editorial Advisory Board discussion in Atlanta were: Chester Funnye, commissioner of public works, Atlanta, and vice president of the American Public Works Association (APWA); Ronald Jensen, director of public works, Phoenix, Ariz., and vice president of APWA; Daniel Kleman, city manager, Tallahassee, Fla., and vice president, International City Management Association (ICMA); Pamela Plumb, city councilor, Portland, Maine, and president of the National League of Cities; Mel Powell, dean, Graduate Center for Public Policy and Administration, California State University, Long Beach; Peter Sferrazza, mayor, Reno, Nev.; Costis Toregas, president, Public Technology Inc.; John Walsh, former finance director, Hartford, Conn., and immediate past president of the Government Finance Officers Association; Buford Watson, city manager, Lawrence, Kan., and immediate past president of ICMA; and Ken Anderberg, associate publisher/editor, *American City & County*. □

Also participating in the board discussion were Mel Powell (far left), magazine editor Ken Anderberg (left), Peter Sferrazza and Ronald Jensen (below).

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have to haul, we can afford to subsidize the recycling program.

Kleman: You will see more state laws requiring recycling. It's a very popular kind of program but it will be tough to do.

Jensen: Something we're looking at is waste-stream reduction. We're in a throwaway society because people have grown up with disposable products. Then you get into marketing and packaging and everything is on a big sheet of cardboard with shrink-wrap plastic on it. At Christmas, with the kids opening presents, you end up with a pile of wrapping materials and a pile of presents, and which is the biggest pile?

Can local government deal with that? Berkeley is taking on McDonalds over the non-biodegradeable plastic hamburger containers, and that may be part of a movement to somehow apply pressure to industry and manufacturing to do something about reducing the waste stream. You've got to reduce the waste stream so you don't have so much to deal with in disposal.

Plumb: It's going to be tough for the Berkeleys of the world to take on McDonalds. Ultimately, you're going to have to look at a larger level of government if you're going to have a significant national impact on packaging.

Kleman: The whole area of hazardous waste will get a lot more attention in upcoming years — everything from household hazardous waste to the siting of hazardous-waste landfills.

Toregas: We can envision local governments operating hazardous-waste collection centers in the same way that we talk about recycling common newspaper and glass. We'll see a lot more state legislatures deal with these kinds of questions. We'll be confronted with issues of siting, and in some cases, actually running or contracting someone to run these kinds of programs. As we find out more about what it is we've been putting in the ground for years, we'll find that option unacceptable.

Jensen: There are a couple other areas we've found are really tough issues. We have stopped taking liquid waste at the landfill because liquids generally contribute to leaching, and it's a major problem. So the liquid-waste haulers are really in a bind because we're cutting them off at the landfill and they won't take the waste at the sewage-treatment plant. So they don't know where to take it. The county has been taking it on an interim basis.

Hazardous waste is the responsibility of the state, but the state doesn't want to touch it. The county says we need to find a solution, that it's the city's problem. It bounces back and forth between city, county and state. Somebody, maybe a combination of governmental agencies, needs to have a special processing plant to handle that kind of waste.

The second most-pressing issue discussed by the Editorial Board was the subject of construction and maintenance of the nation's system of highways, streets and bridges. Board members rated this area nearly as high as waste disposal, with some easing of the problem occurring in the latter part of the 1990s. By the turn of the century, however, the board still expects significant difficulties to exist.

Mel Powell: We're faced with a new tax revolt (in California) called slow-growth initiatives. In Orange County, a countywide initiative will go on the ballot, probably in June, which will tie development to emergency-response time. In other words, if an emergency vehicle or a public-safety vehicle cannot get to an emergency or crime in five minutes then additional development cannot take place in that particular sector.

That impacts the building of freeways or adequate surface-transportation systems. But we don't have the money; we can't raise sufficient funds to build those. So the problem is either going to be permanent or it's going to be resolved through creative financing of some kind — perhaps toll roads.

The infrastructure problem is serious in California, and in every community growing very rapidly and facing citizen resistance. People don't want additional development and that pushes the envelope of development further out, creating crises in that area between downtown and the new development.

The federal government won't be the solution because the money's not there. It's basically the same taxpayer revolt, the same mentality, that operated to reduce property taxes.

Funnye: Stopping development is not going to happen. I wish we'd have control of it to some extent. We are allowing development that does not match the transportation infrastructure already in place.

Also, we build but we forget about maintaining. The bridge issue is very troubling. We had a bridge catch on fire that has been on our replacement list for the past 10 years. Not that it was unsafe, but we should have replaced it. We probably should be replacing anywhere from two to five bridges a year. We're not doing it. In the meantime, the bridges are getting older.

Anderberg: Will we see a trend toward private-sector contributions to building new highways or refurbishing existing roadways?

Kleman: We'll see a lot of that. You're seeing it in Florida with requirements for exactions at the time of development for road-widening projects, new road-construction activity. We'll see that more and more because there aren't many other financial choices.

One of the things troubling is that maybe for the first time in 100 or 125 years the federal government is, in large

measure, getting out of the business of new transportation initiatives. We don't have a new interstate highway system to take the place of the old. We don't have much commitment left for mass transit or public transportation coming out of the federal government. As the country continues to grow, it will be tougher and tougher to finance transportation systems without that kind of involvement.

We're going to see a continuing problem that won't get a lot better. We're going to recognize that there is a problem and then we're going to do a lot of things. Some of them will be wrong and some will be right, but I'm not sure we're going to have the capacity to make transportation much better.

Plumb: When you look at the problem, it's going to stay at a crisis level for a long time, simply because we're looking at staggering numbers. No matter how many private bridges there'll be, or how many toll roads you build, or how much you use impact fees — which will definitely be a wave of the future — you're still looking at enormous input from the public sector to maintain it. Until there's some kind of resolution of the deficit cloud we live under, so there can be some kind of investment again at the federal level, it's going to be at a crisis level for a long time.

The numbers are horrendous. You're looking at annual needs for roads and highways of $75 billion and annual federal outlays of $14 billion. State and local governments, and the user fee concept, are not going to make up the difference.

Toregas: We usually think of the federal role as money. But our central government's machinery 100 years ago kind of led us somewhere, irrespective of who paid or how the bill was split when it came time to pay. After seven years of a Washington mentality basically saying government is bad, maybe we have forgotten how to think about a role of government that is a positive role — irrespective of whether it's a financing role or a melding of ideas. There is a role to say there are some issues so staggering that only when we unite our resources at the national level can we produce a result.

There's a major distinction to be made between operating subsidies and maintenance. Maintenance devolves directly into infrastructure investment. If you maintain it well today, you don't have the major problems. When you go over to England and some other countries, you see very few potholes, the sidewalks look beautiful, and you ask what's the secret? The secret, of course, is not that you go out once every 30 or 40 years on an emergency campaign. It's that you finance on a yearly basis the maintenance of that infrastructure.

Plumb: As an elected official, when you've got a budget and constantly are looking at shortfalls and ways to cut back, what do you do when you've got 25 people from the day-care industry in front of you and nobody in front of you asking to maintain the roads. There's no constituency (for roads).

There's got to be a mentality that we have this incredible asset (infrastructure). If you own a house, you don't let that fall down around your ears. You

Awards of Merit Accepting Entries

Outstanding local projects will be recognized by the *American City & County* Awards of Merit. Entries now are being accepted in the categories of buildings and grounds maintenance and construction; economic development; office automation; parks and recreation; solid-waste collection and disposal; street/highway/bridge construction and maintenance; traffic and public transit; wastewater collection and treatment; and water supply.

The deadline for award entries is July 29. An entry form, with more details, appears in this issue. □

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maintain it. The public can understand that.

Funnye: Mass transit is the wave of the future. We cannot build anymore to accommodate the single-occupancy vehicle. The days of throwing concrete after a transportation problem are gone. Why don't we just think in terms of banning all cars in the central business district between the hours of 6 a.m. and 6 p.m.? That way you can ride bicycles, or walk, or use mass transit. There's just no way we're going to continue to allow the automobile because nobody will be moving.

Watson: In European cities, when they have a plan, they mean it. Our plan is political. If you don't like what's happening, you run for office, beat the incumbent, and put your plan in. When they set a line at the edge of Bologna or Dusseldorf, and say, "That's where you're going to stop development and this is where people are going to live," they mean it.

Toregas: On the mass-transit side, there is no support anymore for a national role in terms of money, but at the same time, the systems we have laid out have not been maintained. As a consequence, we're going to have a collapse in our transportation system.

Plumb: We need to make some real sociological changes before mass transit is going to work. We're going to have to change an entire mind-set because by the time we get to the level of financial pain that's going to drive people onto the bus, the deterioration of our transportation systems may be irreparable.

Jensen: Isn't the big issue whether we're going to be proactive or reactive? In the past, we've reacted, and if we continue in a reactive state we'll wait until we have gridlock before doing something. Then it's difficult, if not impossible, to correct. If we followed some type of proactive plan, it would be a whole lot cheaper and more convenient.

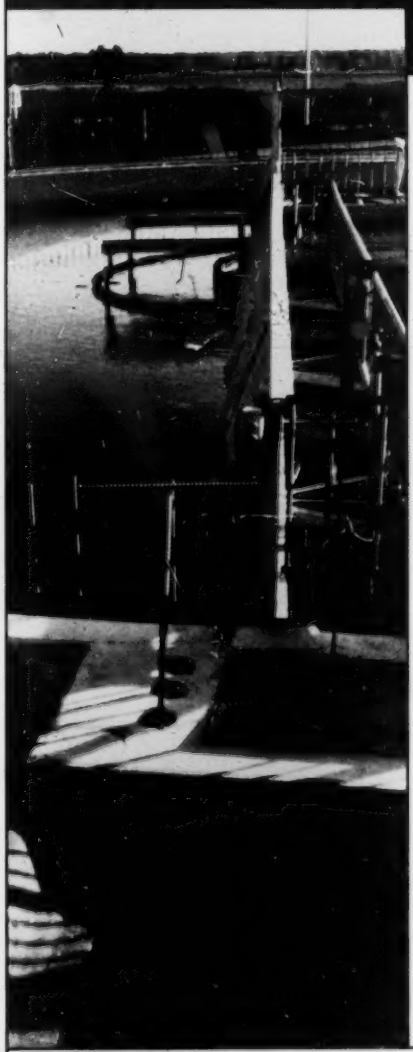
Powell: American government never can be proactive effectively. Our problem in transportation, in terms of sprawl, is cultural. We're not like the Europeans. Americans want single-family homes, where their children can play in the backyard, where they can be away from crime downtown, where everyone has a small estate. This is the American dream, and we support it with cars. We're a car-dependent society.

Europeans do not have suburban sprawl. They have urban development and they develop to the book on zoning. You leave the city and you're in the country. It's not a series of houses getting farther and farther apart. It's controlled. We don't have that kind of control, because the developers will always buy land that is cheapest, that is farthest away from the infrastructure, from transportation corridors. Then through politics they will force the infrastructure to come to them. That's the American way.

"The infrastructure problem is serious ... the federal government won't be the solution."

Plumb: The question is can we deal with that? We not only support it with highways, we support it with the mortgage deduction and the tax system. Are there ways that we can be aggressive through urban-planning mechanisms to control the situation? In fact, is there a role for government to play in trying to alter that psychology?

Toregas: I agree with Mel's analysis but I don't agree with the pessimism we can never change. We have procedures such as strategic planning that are good techniques to coalesce a community in a meaningful coalition to effect change. The gravity of the crisis is enough to provide positive pressure to change. □



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Three of the four indexes rose 0.3 percent from last month, with the **Producer Price Index** increasing 0.1 percent, to 104.6. The **Municipal Cost Index** began another rise, to 113.1. This is the second consecutive increase since the index fell for the first time in more than a year. The **Construction Cost Index** rose to 116.7, while the **Consumer Price Index** increased to 116.0.

Portland cement dropped 1.0 percent, while concrete products maintained a steady 109.6. Construction sand and gravel fell to 120.0, and construction machinery read 110.9.

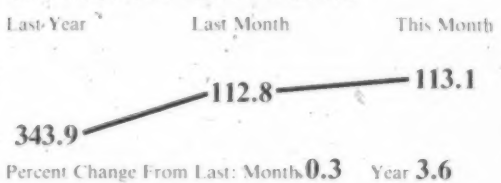
— Compiled by Tim Darnell

THIS MONTH'S MARKETBASKET

	Current Index	Percent Change From: Last Month	Last Year
Air Conditioners	112.0	1.1	2.9
Apparel	109.8	0.5	2.2
Asphalt Roofing	92.7	−1.7	1.3
Chemicals, Industrial	98.4	−0.9	6.0
Coal	96.7	2.1	−2.6
Concrete Products	109.6	0	0.2
Construction Machinery	110.9	0.3	2.8
Diesel Fuel	51.5	−5.7	−2.5
Electric Components	115.8	0	0.3
Electric Lamps	122.1	0.6	1.2
Electric Power	108.0	−0.9	−0.3
Engines, I.C.	110.7	0.4	1.4
Fans, Blowers	112.5	−0.5	1.7
Fertilizers, Mixed	103.7	0.6	11.4
Floor Coverings	112.3	0	2.3
Flow Instruments	116.1	0.3	3.1
Footwear	114.2	1.3	6.2
Foundry Products	107.4	0.3	2.2
Fuel Oil No. 2	51.9	−6.5	−3.7
Furniture	121.3	0.1	3.6
Gasoline	53.8	0	−2.4
Generator Sets	119.4	1.2	4.3
Glass	108.8	0.5	3.0
Glass Containers	112.5	−0.1	−0.8
Gypsum Products	115.1	−4.5	−12.7
Hardware	111.9	0.4	2.8
Heating Equipment	116.3	0.6	0.8
HVAC Controls	113.7	−0.3	0.3
LP Gas	52.8	−3.8	−2.4
Lubricants	102.9	0.8	2.7
Lumber	131.5	−0.1	6.9
Metal Fabrications	110.0	0.5	6.0
Millwork	120.2	0.5	4.5
Motor Vehicle Parts	106.1	−0.3	2.0
Mowers	113.1	0	1.4
Natural Gas	77.4	−1.4	−1.9
Office Machines	105.8	−0.1	2.9
Paint	110.9	−0.1	7.5
Paper	118.7	0.5	6.9
Passenger Cars	111.6	−0.6	−0.4
Plumbing Fixtures	123.7	1.6	4.5
Plywood	104.2	−1.3	1.9
Portland Cement	102.4	−1.0	−0.2
Residual Fuel	44.1	−3.7	−16.9
Sand, Gravel	120.0	−0.2	2.8
Sanitary Papers	109.6	0.6	0.6
Soaps, Detergents	111.5	0.1	3.1
Sporting Goods	105.3	0.5	4.1
Steel Mill Products	107.7	0.4	6.7
Struc. Clay Products	123.4	0.2	3.3
Switchgear	111.2	0.6	2.1
Tires, Tubes	93.5	0.6	2.5
Transformers	107.8	0.9	0.9
Trucks	110.8	0	−2.6
Valves	110.6	0	2.4
Wire, Cable	130.1	−2.5	28.6
Wiring Devices	121.6	0.4	3.8

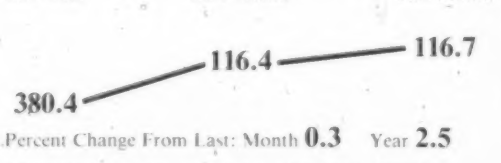
At-A-Glance Changes

MUNICIPAL COST INDEX



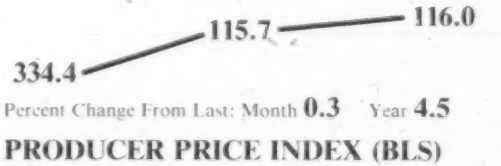
Percent Change From Last: Month 0.3 Year 3.6

CONSTRUCTION COST INDEX



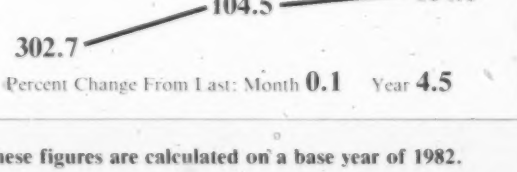
Percent Change From Last: Month 0.3 Year 2.5

CONSUMER PRICE INDEX (BLS)



Percent Change From Last: Month 0.3 Year 4.5

PRODUCER PRICE INDEX (BLS)



Percent Change From Last: Month 0.1 Year 4.5

These figures are calculated on a base year of 1982.

QUARTERLY MUNICIPAL TRENDS

	Current Level	Percent Change From: Last Qtr.	Last Year
Receipts	657.6B	1.0	5.0
Federal Grants	103.5B	−2.4	−5.5
Durable Purchases	27.8B	3.0	11.6
Consumables	44.6B	3.5	16.7
Services	413.1B	2.1	8.2
Structures	61.4B	−2.1	−1.8
Salaries, Wages	325.6B	1.8	7.8
Surplus	87.5B	2.9	10.0
Employment	14.280M	0.3	1.8

Exclusive Survey:

Coping With Cutbacks

By John Sequerth, Managing Editor

Municipal finance officers could have used a double dose of Rolaids during the past year. With the federal deficit bulging to $2 trillion, the United States went from the world's biggest creditor to its biggest debtor during the 1980s. Attempting to trim the deficit, the president and Congress slashed aid to localities, including the elimination of General Revenue Sharing.

The Tax Reform Act of 1986 has limited the activities qualifying for tax-exempt financing and eliminated arbitrage, the practice of investing proceeds from tax-exempt issues. "Tax reform has been a disaster for local governments," said one city administrator from a Mid-Atlantic state. "Our indebtedness options have been strictly limited. The cutback in federal financing in housing and utility-infrastructure improvements have come at a time of increasing need and local financial hardship."

Liability insurance remained not only hard to find, but outrageously expensive. Then, the stock market crashed on Oct. 19, 1987, leaving finance officers confused and concerned.

How are local governments coping? *American City & County* polled 1,000 local administrators and finance officers on issues ranging from the federal deficit to state revolving loan funds. More than 38 percent of the surveys were returned. Ninety-five percent of the respondents represented city governments. Cities with less than 50,000 residents accounted for 78 percent of that total.

Since increased federal support of local-government operations is unlikely with the massive deficit cloud hovering over Washington, local officers were asked how they would prefer the deficit be reduced. Nearly 43 percent said spending should be cut and 6 percent said taxes should be raised. Almost half (48 percent), however, said a combination of spending less and taxing more was the preferred solution.

This opinion jibes with one proposed deficit-reduction plan. "It would be wonderful if the budget could be narrowed without raising taxes," plan proponents said. "Wonderful, but impossible." While the proposal called for new taxes targeting consumer consumption, such as energy products and even cigarettes, half of the respondents to the *American City & County* survey said corporate taxes should be raised.

Thirty-seven percent supported higher oil-import fees, 34 percent backed increased excise taxes and another 28 percent approved of higher gasoline taxes. Adding a dime to the gasoline tax, for example, could raise nearly $9 billion and dent the nation's $840-million-a-week bill for energy products. Many survey respondents noted gasoline taxes should be reserved for the highway trust fund and not used for deficit reduction.

Not surprisingly, raising individual income taxes was favored by only 27 percent.

Ideally, in the aforementioned proposed deficit-reduction plan, "every dollar of additional tax revenue should be matched by $2 of spending cuts." Cutting the federal budget has proven to be an arduous task. Defense spending, Social Security and interest payments on the $2-trillion debt account for more than 60 percent of all federal-government spending.

At the recent Congressional-City Conference sponsored by the National League of Cities, Sen. George Mitchell of Maine suggested redistributing the cost of defense among America's allies as a way to reduce the deficit. Current foreign-aid policies were conceived in the aftermath of World War II, he said, when the United States was dominant economically and militarily, adding the nation can no longer afford such expenditures.

"For over four decades, the United States has borne a wholly disproportionate share of that burden," Mitchell said. "We can no longer afford to permit our economic competitors to pour their resources into the economic contest, which we are losing, and we have to re-order our international priorities."

Mitchell has support from survey respondents, with nearly three-fourths wanting cuts made in foreign-aid outlays. Decreased military spending also was favored by 53 percent.

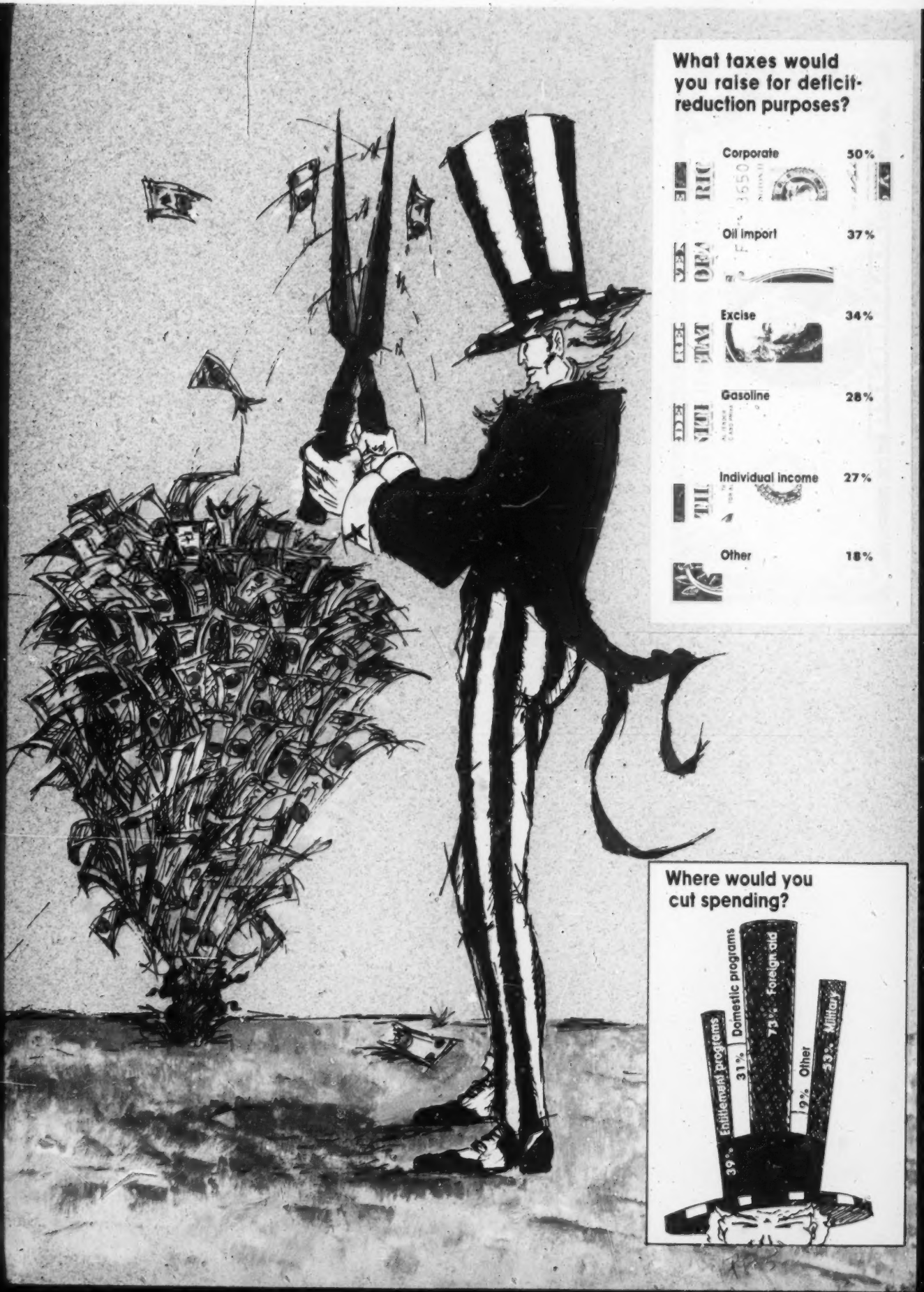
Entitlement programs also are under fire. Last fall, President Reagan said, "Everything (in the budget) is on the table, with the exception of Social Security." That was not always the president's position, but he learned the forces behind Social Security are so strong they have made it a "sacred cow." When the president proposed cutting Social Security benefits in 1981, the Republican-controlled Senate rebuffed him 96-0.

Spending of all kinds for the poor, including welfare, Medicaid, housing and food, adds up to $69 billion a year — just 7 percent of the total budget. Nearly 40 percent of the survey respondents said entitlement programs should be scaled down. Despite the lobbying efforts of city and county organizations against further cuts in domestic spending, 31 percent of the respondents said more domestic cuts were necessary.

At the same time the federal government is withdrawing financial help to communities, federal mandates are being imposed for water, wastewater and clean air. The Tax Reform Act of 1986 also limited tax-exempt financings and eliminated arbitrage. One treasurer of a Western city with more than 100,000 residents bemoaned the "continuing trend of higher levels of government dropping programs with the expectation that lower levels will pick up the slack with no increase in revenue."

To cope with reduced aid, 63 percent of the local governments responding to the survey said user fees were being imposed or raised. Forty-eight percent were forced to raise taxes, while 30 percent reduced service delivery. Privatizing services enabled 22 percent to cut costs. In cities and counties with more than 50,000 residents, user fees were imposed or increased by

ILLUSTRATION AND CHARTS BY ROBERT CLARK

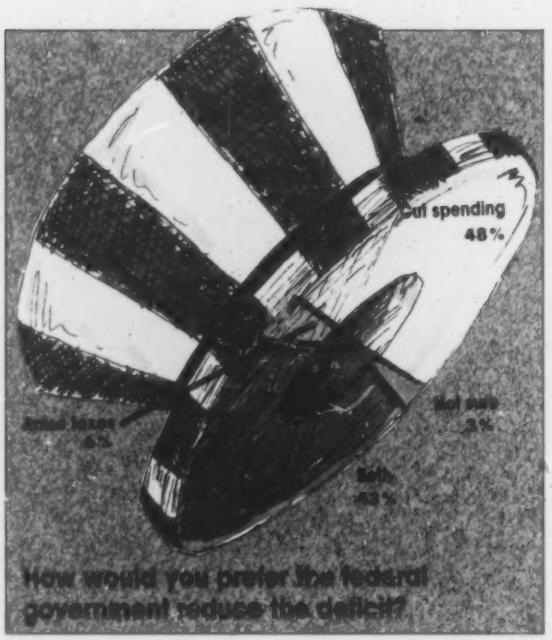

What taxes would you raise for deficit-reduction purposes?
Corporate 50%
Oil import 37%
Excise 34%
Gasoline 28%
Individual income 27%
Other 18%
Where would you cut spending?
Entitlement programs 39%
Domestic programs 31%
Foreign aid 73%
Other 9%
Military 33%

nearly four of five respondents.

When asked which services were reduced, infrastructure repair topped the list with 30 percent, while social services were named by 16 percent. Social services suffered more in larger cities and counties, with 29 percent reducing funds. Garbage collection (7 percent) and housing rehabilitation (6 percent) also suffered.

Interest in privatization remained high. Half of the respondents said they were more likely to privatize today than five years ago. Another 43 percent were equally inclined, while only 7 percent were less likely to consider the private approach.

Many survey respondents reacted negatively to federal and state mandates not accompanied by federal or state funds. "Reduced federal expenditures under the Clean Water Act are a concern," said a village director of finance from the Northeast. "Where will communities get funds for expensive sanitary-sewer systems? Property owners already are overburdened by school taxes."



How would you prefer the federal government reduce the deficit?

State revolving loan funds were designed to help communities finance improvements such as wastewater-treatment plants. According to the survey results, the jury is still out on the usefulness of the revolving loan funds, compared to relying on federal funds. In fact, 44 percent said they were not sure. Twenty-two percent said the funds were less useful, 18 percent rated them about the same, and 13 percent said they were more useful.

While the federal budget and the local-government response to it dominated the survey, other topics also were included.

Lease or purchase? When asked about their community's equipment-procurement process, 49 percent said they usually purchase, 24 percent sometimes lease, and 23 percent lease and purchase. Only 1 percent usually lease. Fifty-five percent of local governments with populations less than 50,000 said they usually purchase equipment, while only 35 percent of larger entities listed "usually purchase" as the preferred option.

The crash. When asked what effect the Oct. 19 stock-market crash would have on local government, more than half (51 percent) said "little effect," while 31 percent said it was too early to tell. Only 2 percent said the crash would have a "profound" effect and 15 percent said "moderate." Two areas would be most affected, according to the respondents. Thirty-three percent said pension funds would feel the impact most, whereas 28 percent mentioned municipal bonds as the area hardest hit.

Globalization. Foreign investment in the United States is well documented, but are communities actively seeking foreign investors? Most are not, according to the survey, with just 12 percent answering affirmatively. About one-third of the counties with more than 50,000 residents, however, are seeking foreign investment for their communities. Of those trying to attract international businesses, 33 percent of the responding communities were from the Southeast and 31 percent were located in the Midwest.

Not surprisingly, Japan was the most frequently sought foreign investor. Approximately 84 percent of those seeking foreign investment mentioned the Japanese, followed by Germany 22 percent, Great Britain 20 percent and France 16 percent. Thirty-one percent were seeking other foreign investors.

Liability insurance. High costs remain a major concern among local administrators, forcing communities to look toward many insurance options to stay covered adequately. Fifty-two percent of the survey respondents joined an insurance pool, 44 percent tried self-insurance and 7 percent have been forced to "go bare" — without liability insurance. Thirty-five percent have improved safety standards, 15 percent have raised taxes and another 6 percent have increased user fees.

Welfare. No consensus was reached on whether states should assume funding and operational responsibility for welfare programs. Thirty-nine percent favored state control and 30 percent were opposed. Twenty-nine percent remained undecided. The numbers were switched among larger communities, however, with 33 percent favoring state control and 39 percent opposed. Again, a large number (27 percent) were undecided.

The two areas, however, generating the most comment were tax reform and federal mandates not accompanied by federal financial support. Eliminating arbitrage was particularly unpopular. "Refunding interest to the federal government from notes and bond sales is ridiculous," said a comptroller from a Northeast city of more than 50,000 residents. "These issues should always be tax exempt."

Many respondents said the federal government was simply passing the buck of responsibility. "Coping with the federal deficit is being construed as passing on services and responsibilities to state and local governments without passing on sources of funds to pay for those services," said a finance director of a small Southeastern city.

Taxpayers are not being well served by the change, according to some respondents. "Federal and state governments have greater resources than local governments," said a city administrator from another small Southeastern community, "yet local government has to really provide direct services. The feds and state waste tremendous amounts on monitoring programs, making sure regulations are followed. This provides no real service to taxpayers."

"The federal government expects more from states and states expect more from local government," said an assistant city manager from a Southwestern city. "The taxpayer pays in the end." □

Tax Changes Usher In a New Era

With only a year and a half since its final adoption, the Tax Reform Act of 1986 stands undeniably as a watershed event in the history of municipal finance. The legislation has changed dramatically the volume, structure and mixture of debt being issued by state and local governments across the country.

Significantly, however, the new restrictions have not yet had their full impact on municipal bonds. The transition to the post-tax-reform era continues. Meanwhile, countervailing forces already are at work in Congress: one to ease the 1986 restrictions, the other to tighten them further.

Among the myriad provisions of tax reform, two areas are having the most profound effect on state and local governments.

The practice of arbitrage, in which the proceeds of tax-exempt issuance were invested in higher-yielding securities, virtually has been eliminated. Effective September 1986, municipal borrowers must track and rebate arbitrage profits to the federal government, a costly administrative and reporting burden.

Also, the types of activities qualifying for tax-exempt financing have been curtailed greatly. This narrowing of eligibility is being phased in over several years.

The implications of tax reform only can be understood when seen against the growth of municipal debt in the last decade. Long-term tax-exempt borrowing increased from $46.9 billion in 1977 to $115.7 billion in 1984, the last year before the onslaught of tax reform. Borrowing for traditional public purposes such as infrastructure and government facilities, however, rose from $29.5 billion to only $41.7 billion.

In contrast, marked growth occurred in the use of tax-exempt financing for various nongovernmental enterprises. Included in these activities were economic-development projects, single-family mortgage subsidies, multi-family residential housing, pollution control, higher education and hospitals. By 1984, this so-called "private activity" financing comprised 64 percent of long-term debt issues, a $74-billion amount, up from $17.4 billion in 1977.

Along with the controversy of municipal borrowers earning arbitrage profits, the mushrooming of these non-governmental projects received the most scrutiny from tax reformers in congressional committees and the Department of Treasury. The final legislation made sweeping changes, eliminating several major categories of tax-exempt projects. The law subjected most other activities, where private enterprise is involved, to statewide volume caps of $75 per capita in 1987 and $50 per capita in 1988 and thereafter.

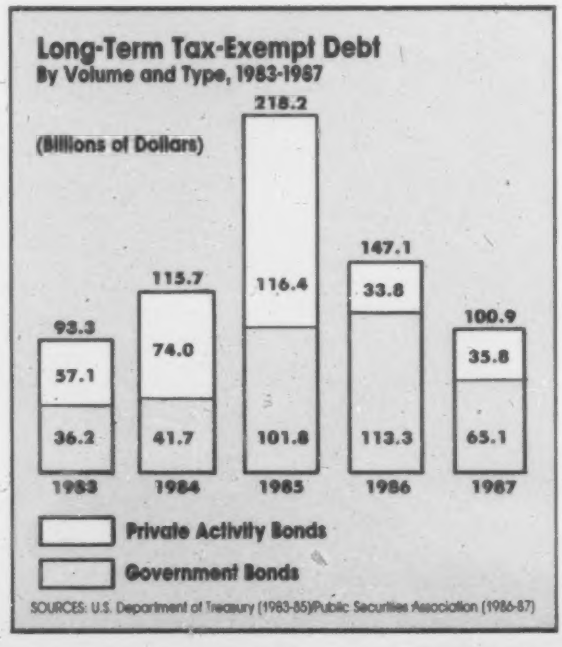
The effect is dramatic. Based on the 1988 limits, estimates indicate $44 billion of the $74 billion of private-activity bonds issued in 1984 would no longer qualify for tax exemption.

In the interim period, however, between the pre-reform year of 1984 and the current 1988 year (when the caps are fully effective), the market has witnessed a roller-coaster pattern of debt issuance. The Department of Treasury first circulated its tax-reform proposals in late 1984. Anticipating the restrictions, tax-exempt borrowers raced to market during 1985 in a year unparalleled in the municipal-bond industry. Volume nearly doubled to $218.2 billion. Private-activity bonds grew to $116.4 billion and governmental bonds to $101.8 billion.

The surge came to a partial end in 1986. According to data generated by the Public Securities Association (PSA), private-activity volume fell sharply to $33.8 billion. Uncertainty over the final provisions and effective date of the pending legislation put most private-activity issuance in risk of retroactive loss of tax-exemption. By contrast, governmental bond issuance continued to surge, to $113.3 billion, as state and local borrowers sought to build a pool of debt that would not be subject to the arbitrage provisions.

In 1987, the first full year under the new legislation, the downward slide in debt issuance continued. With the new arbitrage rules now in place, the volume of governmental bonds fell to $65.1 billion. Private-activity bonds now were subject to the statewide volume caps of $75 per capita — a limitation that aggregated to $21.5 billion nationally.

Interestingly, however, much of this capacity went unused. According to PSA, of the year's total private-activity issuance of $35.8 billion, $14.4 billion was for refunding old debt — an activity not covered by the caps. Another $8.6 billion was for certain categories of new debt, largely hospitals and universities, which also are excluded from the caps. The remaining $12.8 billion was for "capped" projects — only 60 percent of the allowable $21.5 billion.



Why did state governments and their municipal subdivisions fail to use their full borrowing authority for private-activity projects in 1987? Two reasons seem apparent. First, many issuers still had funds available from their heavy 1985 borrowing. Second, the 1986 Tax Act contains numerous complexities still being digested by government finance officials. The result was most states lagged in private-activity financing, with only 12 states coming close to their permissable limits.

This situation is likely to change in 1988. Volume caps now have dropped to $50 per capita — an aggregate level nationally of $14 billion. Twenty states issued more private-activity bonds subject to cap in 1987 than they will be able to issue this year. Moreover, the majority of issuers probably have exhausted their 1985 funds and have figured out the wrinkles of the new law. Admittedly, the unused capacity from 1987 can be carried into the new year. Nonetheless, 1988 should be the year when most states finally experience the true constraints of tax reform — especially in areas such as economic development and housing.

Tax Reform Restricts Private-Activity Bonds

Tax-exempt financing for projects involving non-governmental entities reached its pinnacle in 1984, prior to the distorting effects of tax reform. The composition of the $74 billion in so-called private-activity bonds that year included industrial development and industrial parks ($18.3 billion), single-family mortgage subsidies ($12.8 billion), non-profit organizations such as universities and hospitals ($11.7 billion), and pollution control ($8.1 billion).

The Tax Act of 1986 substantially curtailed the projects that could be undertaken with private-activity bonds:

- Tax exemption was eliminated as of August 1986 for private pollution control, parking garages, and sports, convention and trade-show facilities. Single-family mortgage-subsidy bonds and small-issue industrial-development bonds received sunsets effective in 1989 and 1990, respectively.
- Volume caps were established for each state of $75 per capita in 1987, dropping to $50 per capita in 1988 and thereafter. Activities subject to these caps include multi-family housing, neighborhood redevelopment, and facilities for water, sewer, energy, solid-waste disposal and hazardous wastes (when privately owned).
- To avoid circumvention of the volume caps, traditional governmental bonds were subject to tests in which no more than 10 percent of the facilities they finance can be used or secured by private enterprises. Any private use in excess of $15 million on a governmentally bonded project falls within the volume-cap allocation.
- Governmentally owned airports, docks, wharves and solid-waste facilities may include private use and not be subject to the volume caps. Projects of non-profit organizations also are excluded, although universities are limited to $150 million in bonds outstanding.

The application of these restrictions means only $30 billion of the 1984 total of $74 billion in private activity still could be financed on a tax-exempt basis in 1988. □

The consequence for long-term tax-exempt issuance in 1988 is clear. Overall volume will be the same, or perhaps even less, than in 1987. Presumably, the well-documented capital needs of state and local governments suggest steady future growth of new traditional-purpose financing. But the extent of that growth is limited in any single year by the restraints of fiscal capacity. In short, 1988 marks the real start of the new era in municipal finance. This era will be a time of relative stability, when contrasted to the growth of tax-exempt financing that characterized the years before and during tax reform.

One interesting trend to watch in 1988 and future years will be the extent to which municipal borrowers turn to the taxable market. Many projects now deprived of tax-exempt financing, in theory, could be undertaken without the indirect subsidy of the federal government. To date, however, municipal borrowers have proceeded slowly down this road.

Taxable municipal debt was issued at levels of $4.5 billion in 1986 and $3.7 billion in 1987. The costs are higher and the maturities are shorter than in tax-exempt municipal bonds. Nonetheless, taxables may grow in popularity as they become more familiar and as the impact of the volume caps hits home. But it will be many years before taxable financing can replace the 1984 level of $44 billion in private-activity bonding wiped out by tax reform.

Another interesting development to watch is growing support in Congress to modify the restraints of the 1986 act. In the Senate, David Durenberger of Minnesota has introduced a bill increasing the volume caps to $125 per capita, removing multi-family housing from the volume caps, and eliminating the sunset of industrial revenue bonds. Similarly, Sens. Patrick Moynihan of New York and Peter Domenici of New Mexico plan to conduct hearings and introduce legislation easing some of the 1986 restraints.

In the House of Representatives, a bill modifying the arbitrage rules and private-use definitions for small municipal issuers has more than 30 co-sponsors. In both houses, legislation has been proposed to extend the sunset date for single-family mortgage-revenue bonds through 1992. These initiatives reflect congressional concern about the impact of the 1986 tax reform on the ability of state and local governments to finance capital needs.

That concern, however, runs smack against the reality of the national budget deficit and the inevitability of further measures to enhance federal revenues. Strong sentiment exists in the House Ways and Means Committee, in particular, to go beyond even the 1986 act in restricting the levels of tax-exempt debt.

In the midst of these differing viewpoints, Rep. Beryl Anthony of Arkansas has formed a task force of experts in government and industry to review the overall situation and, especially, double check the Treasury Department estimates of the revenue impact from tax-law changes. Some members of Congress contend Treasury numbers overestimate the revenue gains stemming from the 1986 restrictions on municipal borrowers. Resolution of this fundamental issue of methodology may help shape the larger policy debate. □

This article was prepared by staff members of the Municipal Securities Division of Marine Midland Bank, New York.